

**PSC STAFF FILES RECOMMENDATION IN KCPL-WESTERN RESOURCES
MERGER CASE**

Jefferson City (April 27, 1999)---The proposed Kansas City Power & Light Company/Western Resources, Incorporated (Western/KCPL) electric merger, in its present form, is detrimental to the public interest and should be denied unless Western/KCPL are willing to accept the various conditions proposed by the PSC Staff in its testimony filed on April 26, 1999.

The Staff of the Missouri Public Service Commission is a party to this case. PSC Staff recommendations, as well as evidence and recommendations offered by other parties in this case, will be thoroughly reviewed by the five member Commission which will ultimately determine whether the merger should be approved.

Staff has stated in its testimony that for the merger to be approved, a number of conditions should be placed on that approval. Some of those conditions include:

- * Rejection of the Companies' proposed regulatory plan. Instead the Staff recommends that the traditional rate case process be used to pass on net merger savings to Missouri customers, while allowing the Companies some opportunity for retention of merger benefits.
- * Joint Applicants must produce a transition/integration plan for Commission review which would detail the combined company's post-merger structure and operating details, before the merger is approved.
- * Continued availability of the benefits of certain of KCPL's current cost advantages in the area of low fuel costs for Missouri ratepayers which should not be diverted to Kansas in response to the rate disparity issues that have arisen in that jurisdiction respecting the costs of service of Kansas Power & Light, Kansas Gas & Electric, and even KCPL.
- * The merger transaction not cause any increase to Missouri customers of so-called "stranded cost" exposure related to potential electric restructuring and deregulation.
- * On market power issues, Staff concludes that the merger will have a significant negative impact on the level of competition. Staff recommends that the Commission not approve the merger without the assurance that it can mitigate the market power effects of the merger at the

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time of retail electric competition in Missouri. The Commission should require assurance that if the Commission approves the merger Western and KCPL will continue to offer transmission service through the Southwest Power Pool regional tariff or another regional transmission organization if the Southwest Power Pool regional tariff is not available.

* The Companies commit to continue to provide the Missouri Commission access to necessary books, records, and personnel for audit purposes.

While Staff believes that no regulatory plan (incentive plan or alternative rate plan) should be approved, Staff does offer a plan for Commission consideration. Staff's alternative rate plan would allow for the sharing of benefits more fairly between the Company and its customers at a lower return on equity than proposed by the Companies. Under Staff's proposal, sharing between the Company's shareholders and its customers would begin at 10.375% return on equity. Sharing would not begin until 13.5% return on equity in the proposal offered by KCPL-Western Resources.

Absent the above conditions, Staff believes that the proposed merger, in its present form, is detrimental to the public interest because:

* The Companies' proposed regulatory plan (incentive regulation plan) for rate treatment of merger costs and savings, if adopted, will lead to Missouri customers receiving very little or no rate benefit.

* The proposed regulatory plan would lead to the result that future savings and efficiencies that could be used to lower Missouri rates will instead be used by the Companies to pay for the merger premium (acquisition adjustment) being paid to KCPL shareholders.

* The Joint Applicants have failed to provide the Commission with enough information on their future corporate structure and details on how the future combined Companies will operate so that among other things the Commission cannot presently determine various details respecting the merger including the Commission's jurisdictional authority over the operations of the new entity.

* The Joint Applicants have failed to provide the Commission with enough information concerning the planned location of its post-merger operations and employees.

In testimony filed with the Commission, the PSC Staff states that Western Resources and Kansas City Power & Light's proposed incentive sharing plan will allow for little or no merger related savings being passed on to KCPL's Missouri ratepayers. Staff believes the plan proposed by Western

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Resources and KCPL is structured so that the Company will retain excess earnings that would normally go to customers in order for Western Resources to pay for the merger premium.

Staff has recommended that the Commission use the traditional rate case process to handle merger costs and savings. Under that scenario, merger savings, if any, could be used to lower electric rates for Missouri customers. Non-merger savings or efficiencies could also be used to reduce Missouri rates.

According to Staff testimony, KCPL-Western Resources' proposed regulatory plan is driven by the need of the Companies to capture merger and non-merger related savings to pay for the merger premium or what is called the acquisition adjustment. The merger premium is the amount paid to Kansas City Power & Light shareholders to tender their shares to Western Resources, Inc. in excess of the net book value of KCPL's assets. Staff states the proposed regulatory plan offered by the Companies shifts the vast majority of the merger and non-merger savings to the shareholders.

Staff stated in testimony that KCPL and Western Resources have failed to provide enough details on the post-merger organizational structure of the surviving entity. That organizational structure could have a bearing on future Commission jurisdiction and involve possible federal preemption.

Staff's testimony states that the lack of decisions that have been made and the lack of information that has been provided on the future operational structure of Westar puts the Commission in the difficult position of being asked to approve the merger without full knowledge of what will replace the presently existing KCPL.

Formal evidentiary hearings in this case are scheduled to begin on July 26, 1999, in the Commission's hearing room which is located on the fifth floor of the Truman State Office Building in Jefferson City. These hearings will continue through August 6, 1999, if necessary.

Western Resources and Kansas City Power & Light agreed to merge in February of 1997. The Companies' current merger application was filed with the Commission in June 1998. If the deal is completed Western's utilities, Kansas Gas & Electric and Kansas Power and Light, would join Kansas City Power & Light in a new company to be called Westar Energy.